

# Toward the Promised Land of Delighted Customers: Ten Commandments for Transforming Your Bank



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*Other industries – telecommunications, travel, retail – have raised customer expectations for service. Banks must focus on transforming their business to provide excellent customer service.*

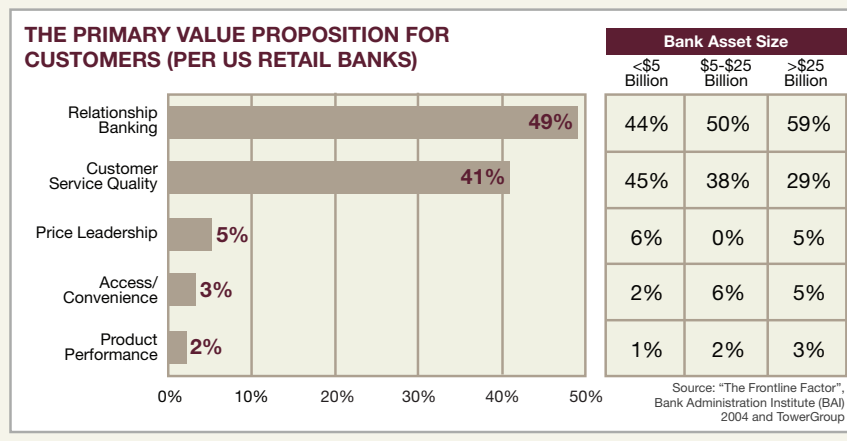
## DELIVERANCE FROM 20TH CENTURY BANKING

Banks have proclaimed their commitment to customer service as a core value for years. Although customers want their bank to operate as a true service provider, most customers are still waiting for their bank to deliver.

Other industries have raised customer expectations for service. Jane and John Doe modify their wireless phone plan in a few keystrokes. They plan an entire vacation online. Their favorite online store knows their tastes in books, music, movies and toys. Their brokerage firm helps them plan for retirement. And while their bank's marketing department may know that the Doe household doesn't have a home equity line of credit, its back office lacks the ability to perform a simpler, more basic transaction such as applying an address change to all five of their existing accounts.

Historically, banks have been at the forefront of technological innovation. As early as the 1950s, banks began using automated bookkeeping machines to more efficiently process what were once labor-intensive, error-prone tasks. Back office automation, electronic funds transfer, encrypted transactions, ATMs and online banking are among the innovations banks have introduced since 1970.

most banks think they are focused on customer relationships already... but are they delivering?



Many of these same systems that facilitated the growth of banking in the 1980s and 1990s are still in use today even though their effectiveness has long since faded, leaving most banks operating in a quagmire of processes and systems designed for yesteryear's passive customer. Today's customers expect true customer-centric banking which requires an enterprise-wide view of bank-customer relationships that these older systems can not provide.

In addition to replacing inhibiting technologies with enabling technologies, achieving true customer-centric banking means re-inventing the concept of cross-selling such that bank products and services are so attractive and compelling customers want to cross-buy. In other words, banks need to focus on what their customers want to buy, not what their marketers want to sell.

*To change their orientation to delighting customers, banks need a major makeover that requires significant changes in their strategies, processes and underlying technologies, such as replacing inhibiting technologies with enabling technologies. The path isn't fast or easy, but it exists—and banks are beginning to find it and follow it.*

In “Capitalizing on Banks’ Sales Opportunities,” a 2006 Forrester Research Inc. report on banks’ need for sales process improvements, Mary Pilecki notes that traditional efforts to convert opportunities using direct marketing mailings, branch staff calling customers, and manual referrals to product specialists yield less-than-desired results.

Pilecki writes, “Current practices focus on products and channels, rather than on customers and profitability. Consumers are inundated with product offers in the mail, by phone, and when they walk into a branch. Frequently, the offer is one that they have either declined in the past or have recently purchased.”

Banks will often lob offers at customers during the course of standard interactions such as changing an address, calling to see if a check cleared, or transferring funds. But just selling (or attempting to sell) an additional product isn’t what builds a relationship; banks have to earn the trust and loyalty of the customer, and thus the right to cross-sell.

To delight customers, banks need a major makeover that requires significant changes in their strategies, processes and underlying technologies. The path isn’t easy or fast, but it does exist, and banks are beginning to follow it.

CGI describes this makeover as Transformational Banking. This paper examines where the banking industry is today, describes the benefits of transforming the bank and lists the “ten commandments” to get there. (In future papers we’ll provide a detailed roadmap for transformational banking, beginning with Transformational Credit.)

## **Before The Waters Are Parted, Banks Will Be Squeezed**

As consumers, we have embraced the concepts of pervasive computing and instant gratification. We want to be continuously connected wherever we go. And we want our services—from ring tones and home pages to money sweeps and credit lines—to be personalized, easy to use and easy to change.

The road to personalized services hasn’t been smooth. Many banks have been slow to take the first steps toward upgrading their core systems to provide customers with online, around-the-clock access to account information and preferences. For example, recent statistics from the Federal Reserve and TowerGroup analysis show that the industry is still transitioning from batch to real-time payment processing. In an effort to provide an advisory, customer-oriented environment, some banks even assign “personal relationship managers” to their best customers to serve as human “work-arounds” to the deficiencies of obsolete systems.

Banks seem to be boxed in on all sides by barriers to growth and innovation. The barriers are real—but they can be overcome.

What overall trends impact a bank’s ability to compete? Let’s examine the competitive environment from five perspectives.

*The burden of maintaining siloed, disparate systems has inhibited bankers from embarking on the major initiatives they need to prepare for this new era of customer orientation. A transformed bank constructs enterprise-based systems around SOA architecture, which reduce maintenance costs and free budget for innovation and change.*

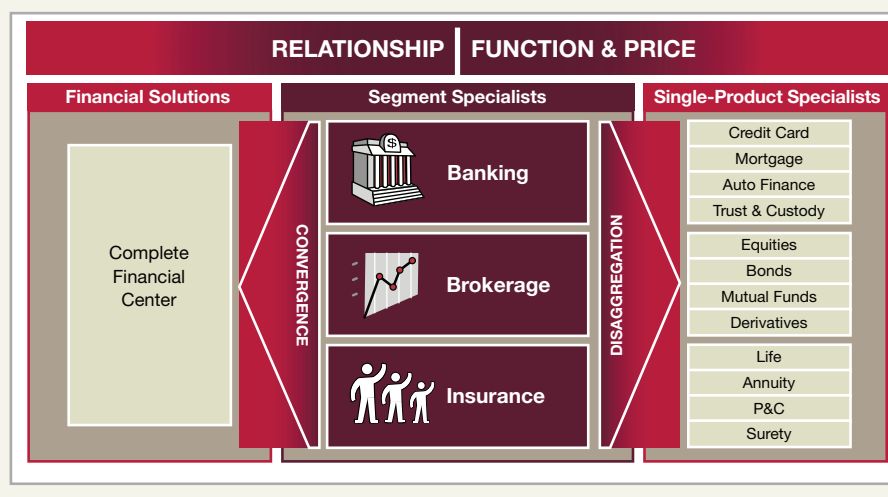
### 1. CUSTOMER- VS. PRICE-BASED BANKING.

The middle-tier, full-service bank is getting squeezed. On one side are national mega-banks that are becoming complete financial centers illustrated by mergers such as Wachovia's purchase of Golden West Financial and A.G. Edwards, the second largest retail brokerage. On the other side, product specialists such as Geico and Scottrade offer pricing advantages to consumers. Regional and local banks are caught in the middle, unable to differentiate on size, price or product excellence.

The only playing field left is service.

No matter the size or focus of your bank, giving your customers the services they want rather than those that you think they need requires changing your culture, processes and technologies.

#### a balancing act



### 2. THE DIMINISHING VALUE OF MERGERS AND ACQUISITIONS.

Banks have been consolidating for years and although there will be fewer target banks, mergers will certainly continue. But mergers aren't a panacea. Scale provides diminishing advantages: many acquiring banks are still trying to digest and integrate the cultures and infrastructures they have acquired over the years.

Moreover, mergers and acquisitions are no longer the easy road to growth. Financial markets reward banks more for organic growth than for growth-by-acquisition. Bankers need to think more like retailers and consider same-store-sales the benchmark of growth if they want to prove that they can grow without acquisitions.

### 3. THE MAINTENANCE TRAP.

Most banks recognize the need to capture greater share of wallet. They also recognize that technology is an enabler. But the burden of maintaining siloed, disparate systems has inhibited bankers from embarking on the major technology initiatives they need to prepare for this new era of customer orientation.

*Achieving true customer-centric banking means re-inventing the concept of cross-selling. Make the products and services so attractive and compelling that customers want to cross-buy.*

Industry estimates from TowerGroup indicate that in 2005 the average bank spent 72% of its IT budget on maintenance, leaving only 28% to spend on regulatory changes and innovation. Obsolete technology paralyzes banks' ability to innovate, improve performance and grow organically.

Bottom line: Even visionary banks feel trapped. Technology, once an invigorator of growth, has become an inhibitor.

#### 4. PRODUCT PARITY.

With commoditized, me-too financial products available from any bank, customers have little motivation to remain loyal. Banks must therefore react to a compelling signal customers have been sending for some time and make every touch-point a pleasant and personalized experience rather than an opportunity to sell products such as home equity loans. Creating this positive experience in all channels will become a major differentiator in the financial services market.

#### 5. CUSTOMER ATTRITION.

Banks are struggling to minimize churn. A customer should want to stay with her bank because she is delighted with its products and services—not because it's a hassle to change automatic drafts and bill payments. According to Forrester Research, the most loyal customers are those who are deeply satisfied with the service interactions at the branch and cross-channel transactions.

Item Compared	Today Bank	Transformed Bank
Culture	<ul style="list-style-type: none"> <li>Oriented around selling products</li> <li>Flat organic growth; last growth resulted from acquisition</li> <li>Low customer retention</li> </ul>	<ul style="list-style-type: none"> <li>Oriented around meeting customers' needs</li> <li>Culture emphasizes excellence and continual improvement</li> <li>High organic growth rate</li> <li>Customer retention high and increasing</li> </ul>
Organizational Structure	<ul style="list-style-type: none"> <li>By product, function and channel</li> </ul>	<ul style="list-style-type: none"> <li>Based on a matrix of customer segment and function</li> </ul>
Processes	<ul style="list-style-type: none"> <li>Little support from technology</li> <li>Unable to identify relationships to support cross-buying</li> <li>Low product penetration, with less than three products or services per customer</li> </ul>	<ul style="list-style-type: none"> <li>Full view of customer profile enables effective and efficient cross-buying advice and support</li> <li>Higher wallet share</li> <li>High product penetration, with more than five products/services per customer</li> </ul>
Core Technologies	<ul style="list-style-type: none"> <li>Burdened by the weight of maintaining outdated and disparate systems</li> <li>Almost three-quarters of IT budget is devoted to maintenance, paralyzing banks' ability to innovate and improve internal performance</li> <li>About half of payments are real-time; most other transactions use batch processing</li> <li>Old technologies impede rapid response to market opportunities</li> </ul>	<ul style="list-style-type: none"> <li>SOA architecture</li> <li>Products and services based on universal components to control costs and reduce time-to-market</li> <li>Reduced maintenance costs free about one-half of IT budget for change and innovation</li> <li>Operational excellence with real-time or near-real-time decisioning and processing the norm</li> <li>Technology is a facilitator, not a barrier</li> </ul>

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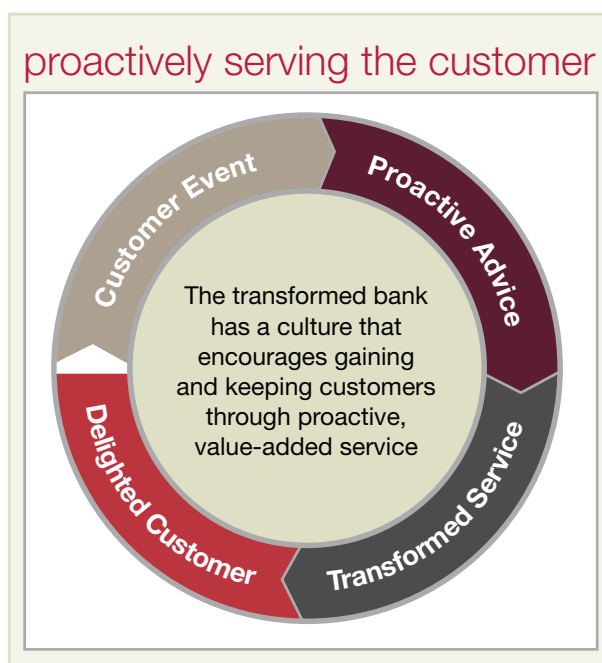
## Transformational Banking: The Journey To Customer Satisfaction

Perhaps the best way to explain Transformational Banking is to contrast the transformed bank with a traditional bank.

To play in the new era of banking, a transformed bank must excel in providing responsive, personalized service at competitive pricing. The bank can then move beyond conventional products and offer lifestyle solutions and integrated, customized accounts.

The next step in the transformation is to offer proactive advice. Instead of today's cross-selling attempts based upon available products, the bank employs integrated technology and processes to make astute observations and offer recommendations that match products with customer needs.

This sort of positive and useful information can make all the difference in how the customer views the bank and the products and services the bank is able to offer. A single preemptive action on the part of the bank can lead to increased customer loyalty and, ultimately, increased wallet share.



Consider the following scenario from the telecommunications industry:

Your cell phone provider calls to let you know that your daughter is averaging 325 text messages per month at 5 cents each. The customer service representative suggests that you sign up for unlimited text messages for a flat rate of \$5 per month.

The transformed bank looks like this:

Your bank calls to let you know that you are averaging about 12 out-of-network ATM transactions per month, each with a \$2 fee. The customer service representative offers you a "Gold Account" which includes unlimited ATM transactions for \$10 per month. The rep then asks if you would like to make the change now, or think about it and make the change yourself online.



## GREAT TRANSFORMATIONS IN OTHER INDUSTRIES

### ***Shipping and Transportation.***

*Perhaps the poster child for transformation is FedEx. FedEx transformed the package delivery business—and then transformed the logistics and customer service of the industry it founded. Fred Smith revolutionized the package delivery business by guaranteeing overnight delivery between any two points in the company's hub-and-spoke system. Years later, to increase customer satisfaction and differentiate its service, the company introduced a worldwide electronic package tracking and tracing system plus the first transportation website to offer online package status tracking. In short, FedEx put the customer in charge.*

*FedEx's innovations didn't go unnoticed by its primary competitor, UPS. That company matched many of FedEx's moves and claimed its own "firsts." For example, the introduction of GPS route optimization systems on UPS delivery trucks not only minimizes time-wasting left turns, but also "beeps" when drivers turn into the wrong driveway*

*Continued page 9 ...*

Transformation enables a bank to shift from market-customized products, where the bank controls the feature lineup, to customizable individual accounts controlled by the customer. Now the customer can choose the features that make the most sense for his or her circumstances—at the preferred time and in the preferred mode.

Recognizing that mobility is increasingly important to customers, the transformed bank can provide customers with pervasive access to their personalized services. The transformed bank may also design bank services to enable customers to serve themselves as much as possible.

And finally, the transformed bank gains marketing flexibility. For example, while demand for student loans, home equity loans and auto loans has steadily increased, mortgage loan demand has been declining since 2003. How does the transformed bank adjust to keep revenue growing? With the technological tools, the culture and the organizational structure in place to rapidly introduce new products, a simple process change allows the transformed bank to adapt its product mix to shifts in market demand.

While most banks remain boxed in by forces they think are beyond their control, transformed banks take action rather than make excuses.

### **A Look At Transformational Banking**

So what does the transformed bank look like? Each bank is unique, but transformed banks share the following qualities:

#### ***A culture that:***

- **Encourages gaining and keeping customers with unparalleled service and attractive products, choices and prices**

#### ***An organizational structure that:***

- **Focuses on customers rather than products**
- **Maximizes functional effectiveness across the enterprise**

#### ***Processes that:***

- **Build loyalty and increase retention with personalized features, lifestyle-based offerings, superior service and rewards**
- **Facilitate cross-buying based on the customer's interests rather than cross-selling based on the bank's interests**

#### ***Core technologies to:***

- **Identify relationships, reveal patterns and offer recommendations rather than merely report balances and activity**
- **Adapt rapidly to shifts in market demand**
- **Share common components across the enterprise**



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## GREAT TRANSFORMATIONS IN OTHER INDUSTRIES (CONTINUED)

### **Air Travel.**

*In an industry known for cutthroat competition and poor customer service, Southwest Airlines is legendary for its strong employee and customer loyalty. Fortune Magazine named Southwest to its list of the “Top Five Best Companies to Work for in America” and the “2nd Most Admired Company in America.” DOT Air Travel Consumer Report states that Southwest had the fewest customer complaints 18 years in a row.*

*Southwest built its reputation around folksy humor, low-cost service, ticketless travel, online booking and fast turnaround of planes at gates. Less well-known is the fact that the company is constantly apologizing to customers. Fred Taylor Jr., Southwest’s senior manager of proactive customer communications (dubbed “chief apology officer” by the New York Times), spends 12 hours a day looking for failures, especially lengthy delays in flight departures. He then sends an apology letter, often accompanied by a flight voucher, to affected customers.*

## The Ten Commandments Of Transformation

How do banks achieve the Transformational Banking vision? And how perilous is the journey? If your bank is truly committed to empowering customers and accelerating growth, follow these Ten Commandments of Transformation to get there:

- 1. Focus on the customer.** Create the mindset that serving customers’ interests is the only way to achieve your bank’s goals. Every initiative should support the goal of offering highly parameterized products, preemptive services, proactive advice and flexible multi-channel access.
- 2. Create a culture of innovation.** First-rate training programs and constant employee communication get people ready for change.
- 3. Establish sound governance.** Astute leadership is critical. It starts with top management sponsorship and must grow to encompass a flock of change agents: business process owners, enterprise project champions and managers of lines of business, products and locations.
- 4. Plan for success.** Establish common enterprise functions and services, build an infrastructure to support applications and map applications to processes.
- 5. Phase the implementation.** Break the journey into manageable, self-funding increments to build consensus and adjust to changes in the business environment.
- 6. Gain insight with analytics.** Use data mining, business intelligence and analytics to manage and improve the customer experience.
- 7. Leverage your efforts.** Use service-oriented architecture (SOA) and other methodologies to reengineer processes, codify expertise and apply common processes consistently throughout the enterprise.
- 8. Simplify.** Reduce the number of systems and vendors. Replace best-of-breed piecemeal solutions with best practices and integrated frameworks. Minimizing integration complexity, reducing costs and improving quality frees up resources for innovation.
- 9. Follow standards.** Rely on industry standards and best practices in your design of the optimal solution mix.
- 10. Don’t hesitate to outsource.** Develop your own “ecosystem” of partners that can source components of the optimum customized solution. You and your partners can choose among onsite, onshore, nearshore and offshore services to best meet your requirements and to achieve the right combination of savings, efficiencies and control.

## ABOUT THE AUTHOR

*Jame Cofran is a Senior Vice President with CGI, and leads the US Banking and Investments Industry Group, supporting CGI regional business units around the world to improve their clients' banking operations. Mr. Cofran has over twenty seven years of experience in technology and business consulting and has innovated and implemented best practices in customer and credit management for many of the largest companies in the finance, telecommunications, energy and healthcare markets worldwide. Mr. Cofran previously led the expansion of the AMS Credit Solutions group into Europe, starting up AMS Management Systems UK Ltd. in 1990 and adding over 20 new clients before returning to the U.S. in 1994.*

## CGI's Transformational Banking Strategy

Founded in 1976, CGI is a leading IT and business process services provider with approximately 25,500 professionals operating in 100+ offices worldwide. CGI has helped 9 of the top 10 U.S. banks and 7 of the top 20 banks worldwide transform their operations to adapt to market needs and to better meet their customers' expectations.

CGI's Transformational Banking strategy and offering mix is a practical way for financial institutions to transform their systems and processes into a cost-efficient growth engine. Our approach integrates a SOA-based technology platform with services expertise, project management, partnerships and global resources to deliver lower-cost, flexible, customer-centric banking solutions. The approach is built on the premise of evolution rather than revolution. It focuses on prioritizing investments, adding "bite-size pieces" in a phased approach, and reusing systems and components whenever possible rather than developing new ones.

CGI's Transformational Banking offering includes:

- Products and services based on universal components to control costs and reduce time-to-market
- Time-proven techniques for managing change toward achievable goals
- Global delivery capabilities and options to optimize the cost and service of each function and to facilitate business efficiency
- Financial expertise built from 30+ years of experience in working with 300 mid-sized and large banks

CGI's fundamental and coordinated approach to changing an organization's culture, processes and technology minimizes the risks, shortens the transformation period, and magnifies the benefits you can achieve.

For more information, visit [www.cgi.com/bankingtransformed](http://www.cgi.com/bankingtransformed) and contact [banking.solutions@cgi.com](mailto:banking.solutions@cgi.com).